



HIGHLIGHTS

	1971	1970	1969
Net sales and royalty income	\$ 7,977,000	\$ 7,719,000	\$ 5,344,000
Net earnings before gain or loss on securities:			
Total	\$ 451,000	\$ 239,000	\$ 364,000
Percent of sales	5.7%	3.1%	6.8%
Net earnings for the year	\$ 454,000	\$ 110,000	\$ 235,000
Working capital	\$ 2,471,000	\$ 1,533,000	\$ 1,780,000
Total assets	\$ 10,694,000	\$ 6,270,000	\$ 5,881,000
Total shareholders' equity	\$ 4,341,000	\$ 3,887,000	\$ 3,482,000
Average number of common shares outstanding	1,401,000	1,401,000	1,193,000
Per common share:			
Net basic earnings before gain or loss on securities	32.1¢	17.2¢	30.5¢
Net basic earnings	32.4¢	7.9¢	19.7¢
Total assets	\$ 7.63	\$ 4.48	\$ 4.93
Total shareholders' equity	\$ 3.10	\$ 2.77	\$ 2.92



*Pour garder l'honneur d'une belle
Vallée, et le nuit et le jour,
Contre les piques de l'Amour
C'est trop peu de Harlequin pour faire sentinelle.*
A Paris chez F. Chausson rue d'Anjou au 25. 1715. A.P.R.

Cover

This is a scene from the Commedia dell'arte which was engraved by C. H. Cochin, the Younger (1715-90). It is currently displayed in the British Museum in London. A Harlequin character can be observed in the background.

The Harlequin is one of the most mysterious figures ever created. He is a theatrical device which can be traced as far back as 400 years. Born in Italy, the Harlequin character played a leading part in the development of Commedia dell'arte, a unique form of creative drama. Through him, new theatre forms followed—l'opéra commique in France and pantomime in England.

The standard Harlequin costume consisted of breeches and a jacket with multi-coloured triangular patches sewn on the garment. The Harlequin was usually featured in plays of mystery, comedy and romance which made him a distinctively suitable choice as the trademark of Harlequin Romances.

W. F. WILLSON
VICE-PRESIDENT, PLANNING & DEVELOPMENT
HARLEQUIN ENTERPRISES LIMITED

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HARLEQUIN ENTERPRISES LIMITED

BOARD OF DIRECTORS

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JOHN T. BOON, C.B.E., *Deputy Chairman*
Managing Director, Mills & Boon Limited

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Retired Partner, Richardson Securities of Canada

LAWRENCE C. BONNYCASTLE
Vice Chairman, Canadian Corporate Management Company Limited

ALAN W. BOON
Editorial Director (Fiction), Mills & Boon Limited

W. LAWRENCE HEISEY
President, Harlequin Enterprises Limited

RUTH P. PALMOUR
Secretary-Treasurer, Harlequin Enterprises Limited

DANIEL SPRAGUE
President, James B. Carter Limited

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W. LAWRENCE HEISEY, *President*

WILLIAM F. WILLSON, *Vice President*

RICHARD H. BELLRINGER, *Vice President*

RUTH P. PALMOUR, *Secretary-Treasurer*

MARTIN A. REAUME, *Comptroller*

CORPORATE INFORMATION

CORPORATE OFFICE *Suite 404, 101 Duncan Mill Road,
Don Mills 405, Ontario*

AUDITORS *Clarkson, Gordon & Co., Toronto*

LEGAL COUNSEL *Davies, Ward & Beck, Toronto*

BANKERS *The Toronto-Dominion Bank*

EXCHANGE LISTING *The Toronto Stock Exchange*

REGISTRAR &
TRANSFER AGENT *Montreal Trust Company, Toronto,
Halifax, Montreal, Calgary, Vancouver*

ANNUAL MEETING *11:00 a.m., June 1, 1972,
Canada Trust Building, Penthouse,
110 Yonge Street, Toronto*

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Chairman's Report to the Shareholders

Financial Results. Your Directors are pleased to report that net operating earnings for the year ended December 31, 1971 were \$451,000 or 32.1¢ per share, which compares with net operating earnings in 1970 of \$239,000, or 17.2¢ per share. Net earnings after securities transactions in 1970 were \$110,000, or 7.9¢ per share. The improvement is largely attributable to the implementation of the operating changes referred to in our 1970 Annual Report, and to the acquisition of Mills & Boon Limited, effective October 1, 1971.

Mills & Boon Limited. The most significant step in the history of your company was the acquisition, effective October 1, 1971, of Mills & Boon Limited, London, England, for a purchase price of \$3,069,381 plus five-year warrants entitling the holders to acquire 100,000 Harlequin common shares at \$4.50 per share. To finance the acquisition, Harlequin issued \$1,000,000 of 9% ten-year debentures convertible into common shares at \$4.00 per share and undertook bank borrowing of \$1,500,000, both early in 1972.

Mills & Boon Limited is the largest publisher of romantic fiction in the English-speaking world, with substantial international sales of books and rights. In addition to romantic fiction, Mills & Boon Limited publishes general and educational lists. These include books on handicrafts, home economics, woodwork, metalwork, chemistry, and series of technical monographs and books on home winemaking. Since 1958, your company has been the licensed publisher for North America of romance books selected from the Mills & Boon Limited backlists.

We believe that the prospects of Mills & Boon Limited for 1972 and future years are very encouraging. We welcome Mr. John T. Boon, C.B.E., and Mr. Alan W. Boon to your Board of Directors.

Harlequin Book Division. The Harlequin Book Division showed satisfactory growth in North American markets in 1971. This progress is expected to continue during 1972.

The distribution arrangements for Harlequin Romances in North America have been improved. In Canada, we have formed a jointly-owned national distribution company, Har-Nal Distributors Limited. In the United States, the licensing arrangement with Simon & Schuster, Inc., has been replaced by a distribution arrangement with that company, which will include Harlequin's distribution to the entire U.S. market by mid-1972. The net effect of these changes should be to increase the Division's profits in 1972.

Harlequin Romances have been priced to readers in North America at 50¢ since mid-1968. The price was increased to 60¢ effective with titles shipped in March 1972. Nearly half this increase will go to regional wholesalers and retailers who receive a percentage of the cover price for their services. With the average price of paperback books now at about \$1.00, Harlequin Romances will still be inexpensive entertainment for their many readers.

Sales through the Harlequin Reader Service of Harlequin Romances backlist titles and of the new Golden Harlequin series continued to increase during the year. We have begun to offer these books selectively to our regular wholesalers and retailers.

Learning Materials Division. The Learning Materials Division comprises Scholar's Choice Limited (the operating successor to Jack Hood School Supplies Company Limited and Nor-Ed Supplies Limited) and Learning Concepts Limited.

Scholar's Choice Limited was moved from a loss position in 1970 to a small profit in 1971. We anticipate that its operations will continue to improve and that it will make a moderate contribution to corporate profits in 1972 in spite of the continued pressure on educational

expenditures. Learning Concepts Limited, in its initial year of publishing, has sustained an expected loss.

Outlook. Your company's performance in 1971 was a considerable improvement over the difficult years of 1969 and 1970. If the remainder of 1972 continues to reflect the pattern which has been established in the first quarter, consolidated earnings for 1972 will show an increase over 1971.

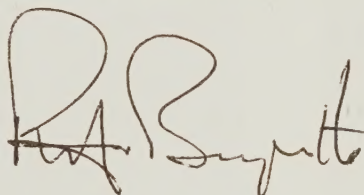
In order to illustrate the growth of the Harlequin Divisions, the following table shows the sales and profits of Harlequin Enterprises Limited and its subsidiaries, as if the companies had been operating as Divisions since the beginning of 1969. Inter-company transactions have not been eliminated and debt service charges have not been deducted. The debt service charges in 1972 relating to the acquisition of Mills & Boon Limited will amount to approximately \$100,000 after taxes.

DIVISION (in thousands of dollars)	1971		1970		1969	
	SALES	PROFIT	SALES	PROFIT	SALES	PROFIT
MILLS & BOON	\$2,875	\$279	\$2,248	\$251	\$1,900	\$179
HARLEQUIN BOOK	3,262	434	2,576	286	2,412	405
LEARNING MATERIALS						
SCHOLAR'S CHOICE	3,991	3	5,143	(47)	5,512	(27)
LEARNING CONCEPTS*	36	(33)	—	—	—	—

*Incorporated in 1971

We are very grateful for the dedication of our employees and the support of our customers over the last year.

On behalf of the Board



Richard A. N. Bonnycastle, Chairman



Ruth P. Palmour, Secretary-Treasurer,
Harlequin Enterprises Limited



William F. Willson, B. COMM.,
Vice President,
Harlequin Enterprises Limited



Glenn G. Johnson, President,
Scholar's Choice Limited and Learning Concepts Limited



W. Lawrence Heisey, M.B.A., President,
Harlequin Enterprises Limited



Richard H. Bellringer, Vice President,
Harlequin Enterprises Limited



Martin A. Reaume, B.COMM., C.A., Comptroller,
Harlequin Enterprises Limited



John T. Boon, M.A., C.B.E., Managing Director,
Mills & Boon Limited



Alan W. Boon, Editorial Director (Fiction),
Mills & Boon Limited

Directions in Management



HARLEQUIN ENTERPRISES LIMITED

Over the last three years, Harlequin has taken deliberate steps to ensure continuity of competent management with the ability to identify and achieve corporate goals satisfactory to the shareholders.

The President of the Company, who is responsible to the Board of Directors for the overall performance of Harlequin and its subsidiaries, is Mr. W. Lawrence Heisey. He joined Harlequin in 1971 from a background in marketing management. He is assisted in the corporate office functions by Mr. William F. Willson, Vice President responsible for planning and corporate development, and Mr. Martin A. Reaume, Comptroller. Mr. Willson joined the Company in 1970 from the management consulting field, where he had been principally concerned with marketing planning and corporate development work. Mr. Reaume came to Harlequin in 1969 from public accounting.

The Managing Director of Mills & Boon Limited is Mr. John T. Boon, a son of one of the founders. He has been with the firm for more than thirty years and is a Past President of the British Publishers Association and President-Elect of the International Publishers Association. Mr. Boon is Deputy Chairman of the Board of Directors of Harlequin.

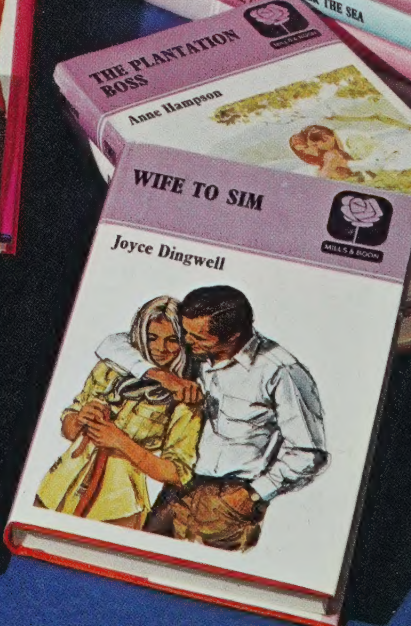
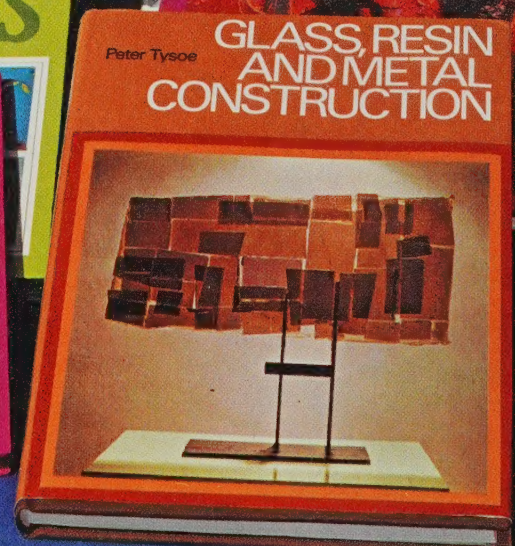
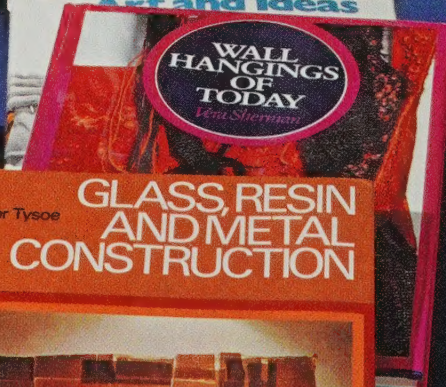
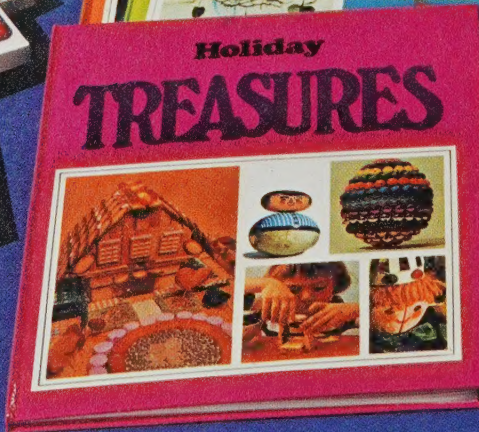
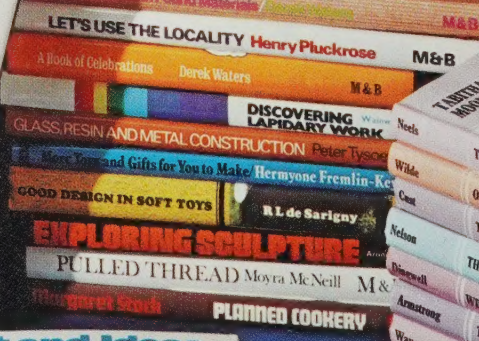
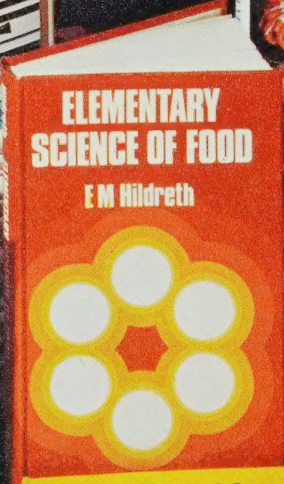
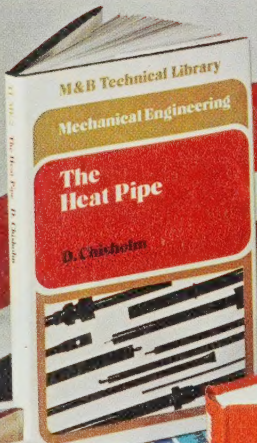
Mr. Alan W. Boon is Editorial Director (Fiction) of Mills & Boon Limited. He also has been with the firm for more than thirty years, where his editorial skills have been responsible for the success of Mills & Boon romances and, indirectly, for that of Harlequin Romances as well.

The Boons are ably supported in the management of Mills & Boon by a group of experienced and loyal senior personnel. Mrs. E. Joan Bryant, M.A., is Senior Editor of General and Educational Books. Mr. A. T. McKay is Director of Marketing. Mr. Peter Collins is Director of Distribution. Mr. B. C. J. Rogers, M.A., A.C.A., is Management Accountant and Secretary. Mr. David Smith is Director of Educational Sales. These key people will make an important contribution to the future of both companies.

Harlequin's North American publishing activities are under the direction of Mr. Richard H. Bellringer, Vice President, who joined Harlequin in 1970 after a twenty-year career in book merchandising, most recently as Executive Vice President of a distribution company.

Miss Ruth P. Palmour, Harlequin's Secretary-Treasurer, coordinates the editorial and art direction of Harlequin Romances, as she has for many years. She has made a great contribution to the development of the Harlequin series.

The Learning Materials Division, comprising Scholar's Choice Limited and Learning Concepts Limited, is under the management of Mr. Glenn G. Johnson who joined Harlequin when his company, Nor-Ed Supplies Limited, was purchased by Harlequin in 1970. Mr. Johnson has extensive experience in school supplies distribution.



Directions in British and Overseas Markets



MILLS & BOON DIVISION

Mills & Boon Limited, founded in 1908, is a publisher of romantic fiction and general and educational non-fiction. The firm has its own sales force in Britain and deals through agents in English-speaking export markets. The printing, binding, warehousing and shipping operations are handled under contract by specialist companies.

Total revenues of Mills & Boon Limited have increased from £582,000 (\$1,513,000) in 1967 to £1,145,000 (\$2,875,000) in 1971, or at an annual rate of 18%. During this same period, pre-tax profits increased at an annual rate of 28%, to £212,000 (\$532,000) in 1971.

Fiction Operations. Mills & Boon Limited publishes fourteen romance novels each month in hard-cover. From these hard-cover editions are selected the novels for the Mills & Boon and Harlequin paperback lines. The firm enjoys excellent relationships with its many authors.

Mills & Boon romance novels have international appeal. Both hard-cover and paperback novels are exported to English-language markets everywhere except North America where Harlequin holds publishing rights. In addition, the rights to translate selected books into specific foreign languages are sold from time to time. Over the years, titles from the Mills & Boon series have appeared in fifteen languages.

Mills & Boon romances are bought largely on the strength of the Mills & Boon imprint. The books enjoy a brisk sale at retail counters each month and returns are negligible by North American standards. The lending libraries in Britain are an important group of customers for the hard-cover editions of the books.

Market penetration per reader is difficult to measure in Britain because of the influence of the libraries on the size of the retail market. Nevertheless, there appears to be good potential for continued sales growth over the next several years in the firm's domestic markets, English-language export markets and foreign-language markets.

Non-Fiction Operations. Mills & Boon Limited diversified into general non-fiction and educational books in 1955. The firm has carefully developed its publishing skills in specialized areas. Its educational lists cover specific academic subjects such as home economics and chemistry, as well as subjects of general educational interest in the handicraft and hobby categories. More recently, the firm has begun publishing a series of technical monographs on a wide range of subjects in the fields of mechanical, chemical and electrical engineering. The company has also entered into a publishing program with a leading manufacturer of educational scientific equipment. A small portion of the Mills & Boon non-fiction publishing is done under the imprint of Allman & Sons (Publishers) Limited, a wholly owned subsidiary of Mills & Boon Limited.

Mills & Boon's non-fiction books are exported to all English-language markets, including Canada and the United States.

Outlook. Mills & Boon Limited has a good record of growth and profitability. The firm will continue to operate under its own management. The outlook for the firm for 1972 and the longer term is encouraging, because of the potential for profitable expansion of its operations in domestic and international markets.





HARLEQUIN BOOK DIVISION

The Harlequin Book Division publishes Mills & Boon romantic fiction in North America under the imprint *Harlequin Romances*. Eight new titles are published each month in paperback form. Harlequin Romances are sold to readers in North America through some five hundred regional periodical wholesalers and through direct retail accounts, including variety and drug chain stores, and trade book stores.

Distribution. In Canada, Harlequin Romances are distributed to wholesalers and direct retail accounts by Har-Nal Distributors Limited. This national distribution company is owned 50% by Harlequin Enterprises Limited and 50% by New American Library of Canada Limited, a subsidiary of Times Mirror Inc. Har-Nal Distributors, which was formed in late 1971, has the largest paperback book sales force in Canada.

In the United States, Harlequin Romances were distributed during 1971 to periodical wholesalers by a national distributor who operated under contract with Harlequin on a commission basis. The direct retail accounts in the United States were supplied with Harlequin Romances by Simon & Schuster, Inc., who published the books under licence from Harlequin and paid Harlequin a royalty on sales.

The arrangement with Simon & Schuster, Inc. expired at the end of 1971. For 1972 and later years, Simon & Schuster, Inc. will become Harlequin's national distributor for the entire U.S. market, assuming distribution to the wholesale segment on May 1st. The consolidation of U.S. distribution will rationalize Harlequin's coverage of this important market and should result in improved earnings from this source.

Sales. Harlequin Romances in 1971 represented approximately 14% of mass-market paperback book sales in Canada, and 3% in the United States. Harlequin's market penetration, measured in unit sales per 1000 English-speaking women, is three times as great in Canada as in the United States, suggesting that there is considerable opportunity for further growth in the United States market.

Paperback books traditionally are sold in North America on a returnable basis. In other words, the covers of books which are not sold to consumers are eventually returned to the publisher for credit. Total returns of Harlequin Romances in 1971 were held to the 1970 percentage and we anticipate that this performance will be maintained during 1972.

Harlequin Reader Service. This operation was established in 1970 to service requests for Harlequin titles which were initially published years ago and which are no longer available on crowded bookstands. In 1971, the Division began to publish backlist titles in hard-cover under the Golden Harlequin Romance imprint. The hard-cover and paperback backlist business has been successful and we are now beginning to introduce these titles to our regular trade channels in response to trade requests.

Outlook. We are looking forward to continued growth in the profits of the Harlequin Book Division. The new arrangement for the U.S. market, the effectiveness of Har-Nal Distributors Limited in Canada and the increase in the cover price of Harlequin Romances should all contribute to an increase in the Division's profits for 1972.

During 1971, Harlequin and Mills & Boon began research and development work on new series of books which would exploit the publishing skills of Mills & Boon and the merchandising techniques of Harlequin. We plan to have at least one new series ready for the market during the second half of 1972.





LEARNING MATERIALS DIVISION

The Learning Materials Division comprises Scholar's Choice Limited, a distributor of teaching aids and library books, and Learning Concepts Limited, a new publisher of educational materials.

Scholar's Choice Limited. Harlequin Enterprises Limited acquired Jack Hood School Supplies Company Limited, of Stratford, Ontario, in 1969. At that time, the Hood company had a record of rapid growth and high profits. These had been derived essentially from distributing a wide range of teaching aids and library books to the Ontario elementary school market. The consolidation of Ontario school boards in 1969 created substantial difficulties for the company. By the end of that year, the company was incurring a loss.

In January of 1970, Harlequin acquired Nor-Ed Supplies Limited of North Bay, Ontario. Nor-Ed, with market and product areas complementary to Hood's, had the managerial skills necessary for rebuilding the profitability of the Hood company. Although the steps which were taken to revitalize that company were expensive, the Hood operation began to produce more favourable results during 1971.

In 1971 the Nor-Ed and Hood companies merged their operations under Scholar's Choice Limited. A pro-forma comparison of the Scholar's Choice operation for 1970 and 1971 shows that the company moved from a \$92,000 pre-tax loss in 1970 to a small profit position in 1971 on a much lower total sales volume. It is significant that this turnaround was achieved in a year when ceilings had been placed on Ontario school board budgets and the market for the company's products was not buoyant.

Consolidation of the physical operations of Jack Hood School Supplies Company Limited and Nor-Ed Supplies Limited, will be completed in 1972. Inventory in North Bay is now being moved to Stratford. It is anticipated that the entire operation will be running as a single entity by mid-year. The expenses incurred in this move will be recovered from cost savings.

Learning Concepts Limited. Learning Concepts Limited was established in 1971 to publish educational programs for the Canadian and United States market. The company developed six new products which were introduced into the market during 1971, including the "Encounter Series," a flexible literature program in paperback format. These products met with varying degrees of success. The operation sustained a not-unexpected first year loss of \$33,000 during 1971.

Outlook. The outlook for Scholar's Choice Limited does not parallel the expectations for other Divisions of your company. While the operations are being made more efficient, we do not foresee a significant improvement in the educational markets in 1972. Scholar's Choice Limited should make a moderate contribution to corporate profits in 1972. We shall continue to seek new opportunities for sales in other levels of the market.

The new product development program for Learning Concepts will be managed carefully while we assess the market's acceptance of the existing product line. Increased product exposure to the market during the second year of operation is expected to improve sales and operating results.

Consolidated Financial Statements



HARLEQUIN ENTERPRISES LIMITED
(Incorporated under the laws of Canada)

Auditors' Report

To the Shareholders of Harlequin Enterprises Limited:

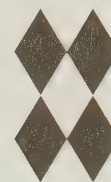
We have examined the consolidated balance sheet of Harlequin Enterprises Limited as at December 31, 1971 and the consolidated statements of earnings and retained earnings, and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the consolidated financial position of the companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
April 14, 1972.

Clarkson, Gordon & Co.,
Chartered Accountants

Consolidated Statement of Earnings and Retained Earnings
For the Year Ended December 31, 1971
(with comparative figures for 1970)



HARLEQUIN ENTERPRISES LIMITED

	1971	1970
NET SALES AND ROYALTY INCOME		
Publishing	\$3,949,593	\$2,575,823
Learning materials	4,027,032	5,143,485
	\$7,976,625	\$7,719,308
EARNINGS FROM OPERATIONS BEFORE THE FOLLOWING:	\$ 944,222	\$ 574,027
Add:		
Interest and dividend revenue	34,380	12,645
Equity in earnings (loss) of Greywood Publishing Limited	963	(4,578)
	979,565	582,094
Deduct:		
Depreciation	45,429	68,072
Interest on long-term debt	24,229	5,038
Income taxes (note 7)	459,000	270,000
	528,658	343,110
NET EARNINGS BEFORE GAIN (LOSS) ON SECURITIES	450,907	238,984
Gain (loss) on securities	3,281	(128,807)
NET EARNINGS FOR THE YEAR	454,188	110,177
RETAINED EARNINGS, BEGINNING OF YEAR	1,220,738	1,110,561
RETAINED EARNINGS, END OF YEAR	\$1,674,926	\$1,220,738
EARNINGS PER SHARE (note 11):		
Basic—		
Before gain or loss on securities	32.1¢	17.2¢
Net earnings	32.4¢	7.9¢
Fully diluted—		
Before gain or loss on securities	31.0¢	17.2¢
Net earnings	31.2¢	7.9¢

(See accompanying notes to consolidated financial statements)

Consolidated Balance Sheet
December 31, 1971
(with comparative figures at December 31, 1970)

Assets

	1971	1970
CURRENT ASSETS:		
Cash	\$ 12,930	\$ 114,329
Deposit receipts	1,141,352	400,073
Marketable securities, at cost		96,282
Accounts receivable	2,743,353	1,643,352
Inventories, at the lower of cost and net realizable value	2,263,485	1,458,538
Prepaid expenses and other current assets (note 4)	388,935	177,227
TOTAL CURRENT ASSETS	6,550,055	3,889,801
INVESTMENTS (note 5)	30,963	34,500
FIXED ASSETS, at cost (note 6)	571,153	568,834
Less accumulated depreciation	359,978	340,404
	211,175	228,430
OTHER:		
Excess of cost of investments in subsidiaries over net book value at acquisition (note 2)	3,704,080	1,974,637
Deferred income tax charges (note 7)	167,700	143,000
Deferred financing charges	30,410	
	3,902,190	2,117,637
	\$10,694,383	\$6,270,368

(See accompanying notes to consolidated financial statements)



HARLEQUIN ENTERPRISES LIMITED

Liabilities and Shareholders' Equity

	1971	1970
CURRENT LIABILITIES:		
Bank indebtedness (note 8)	\$ 782,891	\$ 606,087
Accounts payable and accrued charges	1,422,158	1,236,952
Income taxes payable	680,476	
Provision for returns and allowances	398,677	258,421
Balance of purchase commitment (note 3)	794,381	255,200
TOTAL CURRENT LIABILITIES	4,078,583	2,356,660
LONG-TERM DEBT:		
Balance of purchase commitment (note 3)	2,275,000	
Other	17,335	36,696
	2,292,335	36,696
Less current portion included with accounts payable and accrued charges	17,335	9,600
	2,275,000	27,096
SHAREHOLDERS' EQUITY:		
Capital stock (note 9)—		
Authorized:		
3,000,000 common shares without nominal or par value		
Issued:		
1,400,936 common shares	2,665,874	2,665,874
Retained earnings (note 10)	1,674,926	1,220,738
	4,340,800	3,886,612
	\$10,694,383	\$6,270,368

APPROVED BY THE BOARD:

DIRECTOR

DIRECTOR

Consolidated Statement of Source and Application of Funds
For the Year Ended December 31, 1971
(with comparative figures for 1970)

	1971	1970
SOURCE OF FUNDS:		
Net earnings for the year	\$ 454,188	\$ 110,177
Add (deduct)–		
Depreciation	45,429	68,072
Deferred income tax charges (note 7)	(24,700)	(143,000)
(Gain) loss on disposal of fixed assets	(1,828)	29,714
Equity in (earnings) loss of Greywood Publishing Limited	(963)	4,578
Funds from Operations	472,126	69,541
Long-term portion of purchase commitment for Mills & Boon Limited (note 3)	2,275,000	
Common shares issued		294,798
Other	5,000	26,600
TOTAL FUNDS PROVIDED	2,752,126	390,939
APPLICATION OF FUNDS:		
Excess of cost of investment in shares of subsidiary company		
acquired during the year over book value of net assets (note 2)	1,729,443	532,845
Deferred financing charges	30,410	
Reduction in miscellaneous long-term debt	27,096	17,592
Fixed assets, including fixed assets of subsidiary acquired during the year	26,346	82,409
Other	500	5,000
TOTAL FUNDS APPLIED	1,813,795	637,846
INCREASE (DECREASE) IN WORKING CAPITAL	938,331	(246,907)
WORKING CAPITAL, BEGINNING OF YEAR	1,533,141	1,780,048
WORKING CAPITAL, END OF YEAR	\$2,471,472	\$1,533,141

(See accompanying notes to consolidated financial statements)



HARLEQUIN ENTERPRISES LIMITED

1. Basis of consolidation

The accompanying financial statements consolidate the accounts of the Company and its subsidiaries, all of which are wholly-owned. The subsidiaries comprise Scholar's Choice Limited (formerly Jack Hood School Supplies Company Limited), Nor-Ed Supplies Limited (acquired effective January 1, 1970), Learning Concepts Limited (incorporated in 1971) and Mills & Boon Limited (note 2).

2. Acquisition of Mills & Boon Limited

Effective October 1, 1971, the Company acquired all of the shares of Mills & Boon Limited, a United Kingdom book publisher. The results of the new subsidiary's operations have been consolidated from that date.

This acquisition has been accounted for as a purchase. The acquisition equation, based on unaudited financial statements at September 30, 1971, is set out below:

Net tangible assets at book value, which is equivalent to estimated fair value	\$1,317,063
Excess of cost of investment over net tangible assets (which will not be amortized unless its value is impaired)	1,729,443
Cost	3,046,506
Imputed interest thereon (charged to consolidated earnings in 1971)	22,875
Cash paid in 1972 (note 3)	\$3,069,381

The vendors were also given warrants exercisable to February 7, 1977 to subscribe for 100,000 shares of the Company at \$4.50 per share, which price exceeded the market price at acquisition.

3. Balance of purchase commitment

The cash payment made in 1972 for the shares of Mills & Boon Limited was financed early in that year as follows:

		CURRENT PORTION
BANK LOAN		
Repayable in twenty quarterly instalments of \$75,000 each commencing in June, 1972, and bearing interest at 13/4% per annum above the bank's prime rate:	\$1,500,000	\$225,000
9% DEBENTURES		
Redeemable after December 31, 1972 at a 20% premium, convertible into common shares of the Company at the rate of 250 shares for each \$1,000 principal amount, due in 1982:	1,000,000	—
CASH	569,381	569,381
	\$3,069,381	\$794,381

The Company may accelerate repayments of the bank loan without penalty. As security, the Company has given a first floating debenture on its undertaking, property and assets, has assigned its receivables, and has pledged the shares of its active subsidiaries.

The 9% debentures are subordinated to the prior payment in full of the bank loan, and the redemption provisions are restricted while the bank loan is outstanding. As security, the Company has given a floating charge (also subordinated) on its undertaking, property and assets.

The Company may repurchase the debentures for cancellation within certain limitations, and the debenture holders may require repurchase at par in certain circumstances up to a maximum of \$100,000 annually commencing in 1973. Assuming that annual repurchase of debentures is required to the maximum amount, the total long-term debt repayments during the next five years would be \$225,000 in 1972 and \$400,000 annually in 1973 through 1976.

The balance of purchase commitment shown for 1970 (\$255,200) relates to the acquisition of Nor-Ed Supplies Limited in that year.

4. Prepaid expenses and other current assets

Prepaid expenses and other current assets include prepaid income taxes of \$211,800 (\$89,133 in 1970, including \$51,733 classified in that year as income taxes recoverable) relating to provisions made for accounting purposes which have not yet become deductible for tax purposes.

5. Investments

Investments comprise the following:

	1971
50% OWNED COMPANIES—	
Greywood Publishing Limited:	
Shares, at cost	\$ 2,000
Equity in retained earnings	3,463
Advances	—
	5,463
Har-Nal Distributors Limited:	
Shares, at cost	500
PAGURIAN PRESS LIMITED:	
Shares, at cost	25,000
	\$30,963

6. Fixed assets

The major categories of fixed assets at December 31, 1971 are as follows:

	COST	ACCUMULATED DEPRECIATION	RATES
BUILDING	\$ 61,638	\$ 39,267	5%
MACHINERY AND EQUIPMENT	368,327	248,829	20%
VEHICLES	70,977	33,075	30%
LEASEHOLD IMPROVEMENTS	66,461	38,807	
	567,403	359,978	
LAND	3,750	—	
	\$571,153	\$359,978	

Straight line depreciation is written on leasehold improvements over the terms of the leases, and the diminishing balance method is applied to the other depreciable assets at the rates shown above.

7. Deferred income tax charges

The 1971 consolidated provision for income taxes has been reduced by, and a deferred tax charge has been set up in the amount of, \$27,700 to recognize the income tax benefits which, in the opinion of management, are virtually certain to be realized in future years by carrying forward the 1971 tax loss of one of the subsidiaries to apply against its future taxable income. Deferred income taxes were similarly set up in the case of another subsidiary in 1970 in the amount of \$143,000, of which \$3,000 was realized in 1971.

8. Bank indebtedness

A subsidiary has assigned its accounts receivable (\$784,000) as security for the bank indebtedness.

9. Capital stock

The Company has set aside 350,000 authorized common shares for the conversion of the 9% debentures (250,000 shares) and the exercise of share purchase warrants (100,000 shares).

During 1971, 40,000 common shares (valued by the directors of the Company at \$94,800) were issued in partial satisfaction for the purchase of Nor-Ed Supplies Limited. As this acquisition was effective January 1, 1970, the issue has been reflected in the 1970 comparative figures.

10. Dividend restrictions

The bank loan agreement and the trust deed securing the 9% debentures contain provisions requiring the maintenance of minimum consolidated working capital and restricting the payment of dividends. As a result no dividends may be paid out of retained earnings accumulated to December 31, 1971.

Transfers of earnings from the United Kingdom are subject to the approval of exchange control authorities, but permission to pay dividends is normally obtainable. Such dividend payments are subject to withholding taxes, which taxes will be reflected in consolidated earnings only at the time of actual dividend remittance.

11. Earnings per share

Basic earnings per share have been computed on the basis of the weighted average number of shares outstanding during the year plus, in the case of the 1970 calculation, 40,000 common shares issued in 1971 in connection with the purchase of Nor-Ed Supplies Limited, whose earnings are included from January 1, 1970. Fully diluted earnings per share reflect adjustments to earnings and to the weighted average number of shares outstanding during the year that would have resulted if all the 9% debentures had been converted and all share purchase warrants had been exercised on October 1, 1971, the date from which the earnings of Mills & Boon Limited have been included in consolidation.

12. Remuneration of directors and officers

The aggregate remuneration (none of which was to the directors, as such) charged to consolidated earnings for the year ended December 31, 1971 in respect of seven directors (four of whom were also officers), two former directors and three other officers of the Company was \$144,830, all of which was paid by the Company.

13. Lease commitments

The Company and its subsidiaries are committed to annual rentals under leases as follows:

EXPIRY DATE	ANNUAL RENTAL
1974	\$10,000
1975	16,800
1978	45,000
1980	37,500
1986	19,000

Directions in Corporate Development

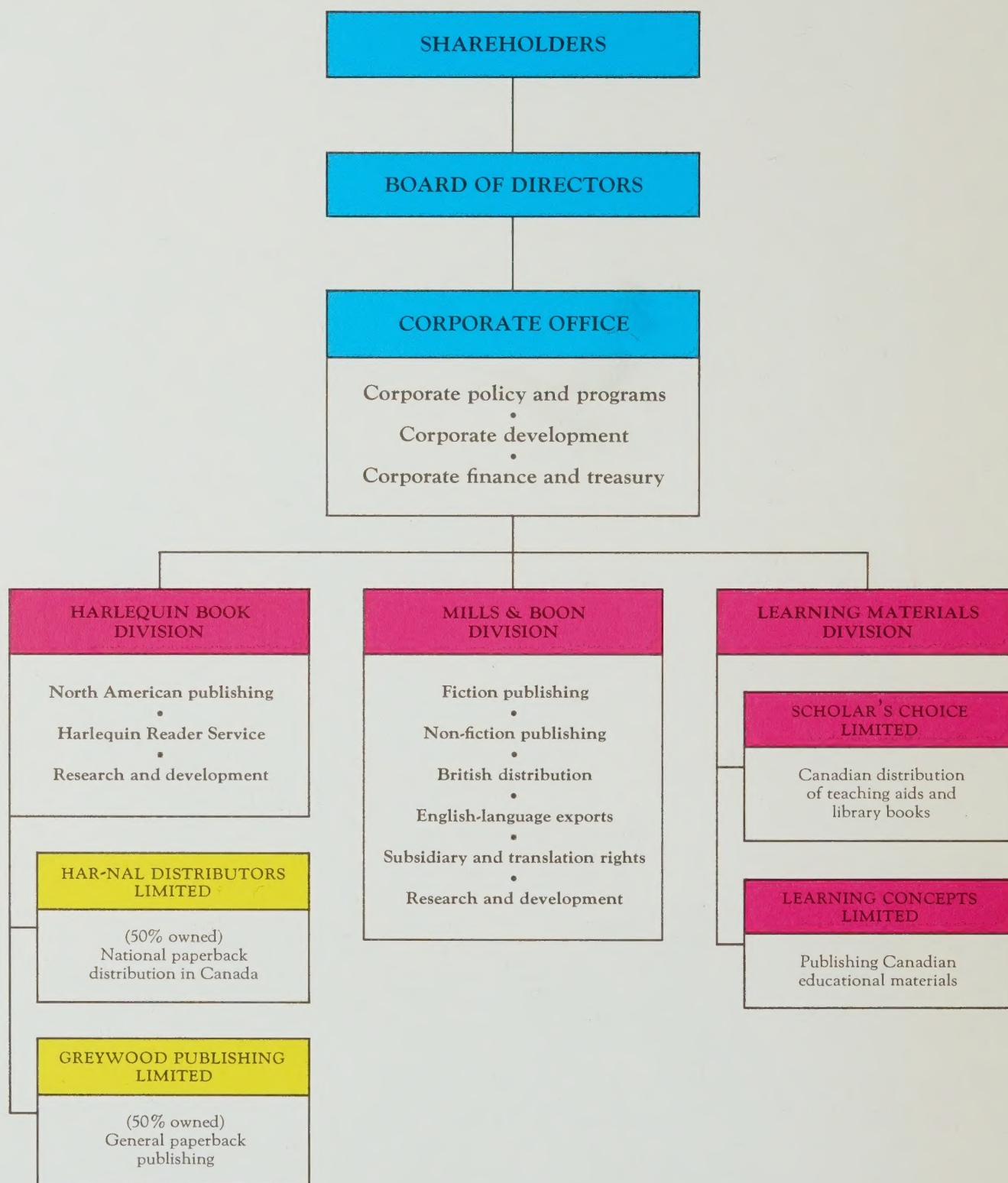


HARLEQUIN ENTERPRISES LIMITED

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- 1949 • Harlequin Books Limited was founded in Winnipeg as a small publisher of a paperback line of general fiction.
 - 1953 • Harlequin Books began to develop its line of romantic fiction.
 - 1958 • Harlequin Books began its association with Mills & Boon Limited. Mills & Boon soon became the sole supplier of titles to Harlequin.
 - 1962 • Harlequin Books began exporting to selected states in the U.S.A.
 - 1967 • Harlequin Books expanded its distribution nationally in the United States market.
 - 1969 • Jack Hood School Supplies Company Limited was acquired.
 - Harlequin Books Limited became Harlequin Enterprises Limited, issued shares to the public and was listed on The Toronto Stock Exchange.
 - 1970 • Nor-Ed Supplies Limited was acquired.
 - 1971 • Nor-Ed Supplies Limited and Jack Hood School Supplies Company Limited combined their operations under Scholar's Choice Limited.
 - Learning Concepts Limited was founded.
 - Mills & Boon Limited was acquired.



HARLEQUIN ENTERPRISES LIMITED





Directions in World Markets

Australia
Bahamas
Bangla Desh
Canada
Ceylon
Ethiopia
Fiji
Gambia

Ghana
Guyana
India
Indonesia
Israel
Kenya
Malawi
Mauritius

Middle East
New Zealand
Nigeria
Pakistan
Philippines
Rhodesia
Sierra Leone
South Africa

South East Asia
Sudan
Tanzania
Uganda
United Kingdom
United States
West Indies
Zambia

